States of Jersey

JERSEY COMPETITION REGULATORY AUTHORITY

POJ1395J - Ports of Jersey Long-Term Pricing Framework – Assumptions: Draft Decision

Response from the States of Jersey

This paper sets out the response of the States of Jersey ("SoJ") to the Jersey Competition and Regulatory Authority's Draft Decision on the Ports of Jersey long-term pricing framework assumptions.

SoJ acknowledges the lack of sectoral policy for Ports of Jersey ("PoJL") and the difficulties this can add to the regulatory process, however this paper should not be interpreted as specific government policy. The intention was always that this policy would be developed following a reasonable post-incorporation period and this work has now commenced. SoJ is responding to some specific assumptions within the Draft Decision where we feel greater clarity of the original information provided would be useful.

ASSUMPTION	DRAFT DECISION	SOJ COMMENT
Business Volumes	• 2.7% for air passengers; • 1.25% for sea passengers; and • 0.53% for freight & fuel.	<u>Air Passengers</u> We accept that both CICRA and PoJL have carried out their own analysis and research on passenger volumes. There appears to be a disconnect between PoJL's proposals and Visit Jersey's ambition for one million passengers by 2030 which merits further investigation. Whilst Visit Jersey's ambition is a useful guide to potential passenger volumes we don't believe it is the most appropriate reference point for the Draft Decision. We also note that since the original Call for Information a consortium takeover of Flybe has been announced, the outcome of which could add pressure to capacity availability to and from Jersey. In conclusion, it would appear that CICRA's assumptions are very challenging. The independent researched carried out by PoJL is a robust and credible basis for air passenger volumes for the pricing framework. However, the Shareholder will be challenging the company to achieve higher growth, particularly given the stated ambition of Visit Jersey.

		<u>Sea passengers</u> We maintain our comments from the Call for Information that PoJL's proposal for flat growth appears to be optimistic. Analysis of sea passenger volumes since the beginning of 2016 shows an average decline of almost 1.0% per annum. CICRA's use of the Visit Jersey ambition for sea passengers creates a risk of 'double counting' with the air passenger growth volumes they proposed. When combined CICRA's Draft Decision achieves a total figure far greater than the Visit Jersey ambition of 1 million by 2030, when commencing with the 2017 statistics.
Master Plans contained within the Long Term Capital Plan	Airport - £34.05m (based on a total investment of £40m), Harbour – decision deferred PoJL will be required to demonstrate delivery of the project at, or below, the cost allowed. In the event of a cost overrun, PoJL will be required to demonstrate how it intends to 'make good' the overrun.	SOJ wishes to provide some additional clarity to our original response. A further review of information held by SoJ confirms that the amount required for the Airport Terminal Master Plan between 2018 and 2024 is £42.45million.
Operating Cost Efficiency	1.0% in real terms per annum	We acknowledge that a portion of PoJL's cost base is determined by regulatory requirements which have an impact on the ability to make efficiency savings. A 0.2% saving on costs (£34.698m – 2017 report and accounts, ignoring regulatory costs) equates to only £69,396 in monetary terms which appears conservative. We note Condor Ferries also made a similar observation in their response.

		However, applying the same methodology to CICRA's Draft Decision would require PoJL to make annual savings of £346,980 which looks aggressive and is likely to have a material impact on one of the key principles of incorporation, i.e. that PoJL should be financially self-sustainable. We feel that further work is required following the outcome of this current decision to agree an appropriate target which should focus more on PoJL's regular systemic and realised costs, e.g. costs related to service delivery, working practices etc. but acknowledges some of the future benefits to inherent costs such as a more efficient terminal building. It should also take account of the legally binding requirement on PoJL of the delivery of Public Service Obligations which should be considered separately from the normal operational costs of the business.
Net Debt on Core Activities	No limit set.	SoJ agrees with CICRA's assessment that PoJL will fund its investments using a mixture of debt funding and retained income. Whilst CICRA has currently concluded that the imposition of a limitation on borrowing is not in the best interest of maximising efficiency of operations by POJL, as the sole shareholder SoJ will assess the level of PoJL's debt capacity and associated risks on a regular basis. SoJ will consider factors such as the cost of debt servicing and how adding debt will impact any capital projects which may be planned for the long term given the higher leverage which would have to be paid back or refinanced. It should not therefore be assumed that PoJL

		has unlimited access to debt funding for the purposes of the pricing framework but as an interim measure we feel PoJL's assumption is appropriate for the purposes of the pricing framework.